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1 March 1957

MEMORANDUM FOR: Assistant Director for Research and Reports

SUBJECT: Notes on the Polish Trade Discussions

1. The meeting on February 27 was devoted to a discussion of Polish balance payments. The Polish delegate, Mr. Raczkowski, spoke for about an hour on this subject, starting with a description of the institutional framework within which Polish foreign trade is carried on. He explained the facts that foreign trade and foreign exchange are state monopolies administered by specific foreign trade companies or banks. He described how the volume of foreign trade is planned by the government and stated that the detailed economic plan is now subject to parliamentary approval. Dealings in foreign exchange are handled by the state banks -- the National Bank of Poland which manages the financing of trade with the Socialist countries, and the Bank of Warsaw and the PKO Bank which handle the financing of trade with the capitalist countries. In 1956 a new law legalized the possession of foreign exchange by private persons in Poland.

2. The Polish balance of payment is planned in advance. The balance between the payments and receipts is adjusted during planning negotiations and in the plan as finally determined payments and receipts are equal. The advantage of this process was stated to lie in the fact that a relatively large volume of trade may be conducted on the basis of relatively small foreign exchange holdings.

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3. The structure of the balance of payments: service items represent a small part of total credits or debits on current account with the exception of transportation payments and receipts. Poland's earnings on rail transport account, both for East-West and North-South transit trade are significant; the earnings of the Polish merchant marine are also important. Interest payments due on foreign trade are negligible largely because of the cancellation by the USSR of Polish indebtedness. Similarly, Polish receipts of interest are negligible. All foreign transactions are computed in foreign exchange, not in zlotys; the zloty is a local currency only, and its exchange rate has significance only for services performed internally, i.e. transportation and tourism. Most of Poland's foreign transactions are settled through bilateral clearing agreements. Poland's trade with Socialist countries is based exclusively on bilateral settlements in rubles. The ruble, however, is only a currency of accounting, not transferable except by the unanimous consent of all parties concerned with any potential multilateral settlement. All transactions within the Bloc are conducted on the basis of World prices. Most of Poland's trade with the Free World is also based on the bilateral clearing agreements; only 13 percent of Polish trade with the West is subject to multilateral settlements (i.e., subject to settlement in convertible currency). It was stated that Poland hopes in the future to participate in multilateral settlements to a greater degree. In the past Poland has participated in triangular clearing agreements involving a Bloc country and a Western country, e.g. the USSR and Finland.

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4. The development of Polish foreign trade: over the years 1945-1948 foreign trade turnover rose rapidly, by 42 percent annually, and by 1948 the prewar level of foreign trade had been achieved. In 1949 the rate of increase began to decline. In the last three years the rates of increase in foreign trade turnover have been

1954	+ 13%
1955	+ 7%
1956	+ 4%

and by 1956 foreign trade turnover reached the level of \$3.2 billion. The decline in the rate of increase in foreign trade is explained by the fact that coal exports have remained stationary at the level of 24 million tons annually, and in 1956 decreased to 19 million tons.

5. Geographic Structure of Polish Foreign Trade: since the end of the war the share of the Soviet Bloc in Polish trade turnover was small. After the war the Bloc's share increased until in 1953 Socialist Countries accounted for more than 2/3 of Polish total trade. In 1953 about 1/3 of total trade was with the USSR, 1/3 with the European Satellites and China, and 1/3 with the West. In 1956 30 percent of Polish total trade was with the USSR, 30 percent with the European Satellites and 40 percent with the West. The plan for 1957 envisages a further increase of trade with the capitalist countries. Of total trade with the West 58 percent is planned with Europe (16 percent with the UK) and 42 percent with overseas countries. The claim that Poland is unilaterally bound to the USSR and other Socialist

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countries is not true. Poland must trade with her neighbors; the lack of trade with the USSR in the prewar years was unnatural.

6. Commodity structure of Polish foreign trade: the dominance of coal in Polish exports has declined. In 1949 coal exports accounted for 55 percent of Polish foreign exchange receipts; in 1956, for 44 percent and it is anticipated that in 1962 the relative importance of coal will even be smaller. The recent decline in coal exports created a payments problem which was alleviated somewhat by a concomitant increase in coal prices. Meanwhile exports of machinery and industrial goods have increased; in 1949 they accounted for 2.2 percent of exports, while in 1956 they represented 12.8 percent. During the period 1949-1953 Polish commodity imports were dominated by machinery and industrial equipment. In 1949 machinery and equipment accounted for 24.5 percent of commodity imports; in 1953, for 41.4 percent; in 1955, 30.9 percent and in 1956, 25.2 percent. Poland is now able to make herself many goods which she formerly ordered from abroad. Fifty to 55 percent of total imports is represented by consumption goods; imports of agricultural products represented 6.2 percent of total imports in 1953, 13.9 percent in 1956. Imports of manufactured consumption goods represented 2.3 percent of the total in 1953, 6.5 percent in 1956 and are planned at 10 percent for 1957.

7. The balance of payments on current account: over most of the last 12 years Poland's current account has shown a deficit; in 1956, however, it was balanced. The deficit has been covered by (1) long term credits

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(2) gold sales, and (3) an increase in short term indebtedness. During 1946-1948 Poland received credits from the USSR and Czechoslovakia, as well as the U.S. (from the Exports-Import Bank and a Surplus Property credit of \$37 million from the U.S. Government). Poland has also received credits from the U.K., Sweden, Denmark, Switzerland, France, Finland and Germany. In 1956 Poland received a \$28 million credit from France and is currently carrying on discussions with the U.K. and France for other medium-term credits.

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8. Problems of the Balance of Payments today: Polish imports must increase significantly in 1957 for 3 reasons: (1) to make possible a rise in the scale of living, (for which Poland needs manufactured consumption goods); (2) to improve the functioning of their economy (in order to repair the harm done to the indigenous resource base by the rapid industrialization of the past) and (3) to overcome discrepancies in the historical development pattern (to overcome the disproportions involved in the past pattern of investment, Poland requires certain investment goods). The Polish trade delegate stated that the best way to achieve this necessary increase in imports would be through an increase in exports. In order to increase exports of coal Poland is attempting to economize in the domestic use of coal and also to increase current coal production. Poland is substituting lignite for hard coal where possible, and is electrifying and dieselizing its railways. Poland is also attempting to open new mines and modernize old ones. In addition, Poland is attempting to expand exports of manufactured goods and machinery; exports of these items are a by-product of

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industrialization. Poland is exporting rolled products to the U.K., India, and West Germany. Polish exports of meat and animal products have also been increased; nonetheless, Poland will need credits from abroad.

9. Poland's Foreign Debt Picture: currently Poland owes the U.S. about \$60 million for war and pre-war debts; \$7 million is owed to Sweden, Belgium and France; Poland's consolidated pre-war and nationalized property debt to the U.K amounts to \$67 million; Poland owes France one million tons of coal in kind. Thus, the total of Poland's long-term indebtedness to the West amounts to \$154 million (including the debt-in-kind in coal valued at \$20 a ton). The delegate emphasized that all Polish commitments have been met.

10. During the question period the relation between the state foreign trade monopolies and the producing enterprises was elaborated. The Polish delegate stated that the "theory of the foreign trade monopolies did not pass the examination", that permitting export contracts to be arranged only by the monopolies had not proved successful, although the system had worked fairly well for imports. It was stated that Poland intends to arrange direct contacts between enterprises and foreign firms, and also to use private agents for these purposes.

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